

Real Property Assessment Policy in a Growing Economy

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Overview

- Rationale—Why talk about property taxation in a conference on real property rights and development?
- Some basics
- Lessons for a growing economy
- Questions for Trinidad and Tobago

Reasons for Discussing Real Property Taxes

- The right to tax property is a property right
- Property taxes and civil rights
- Property taxes and development
- Property taxation and land administration

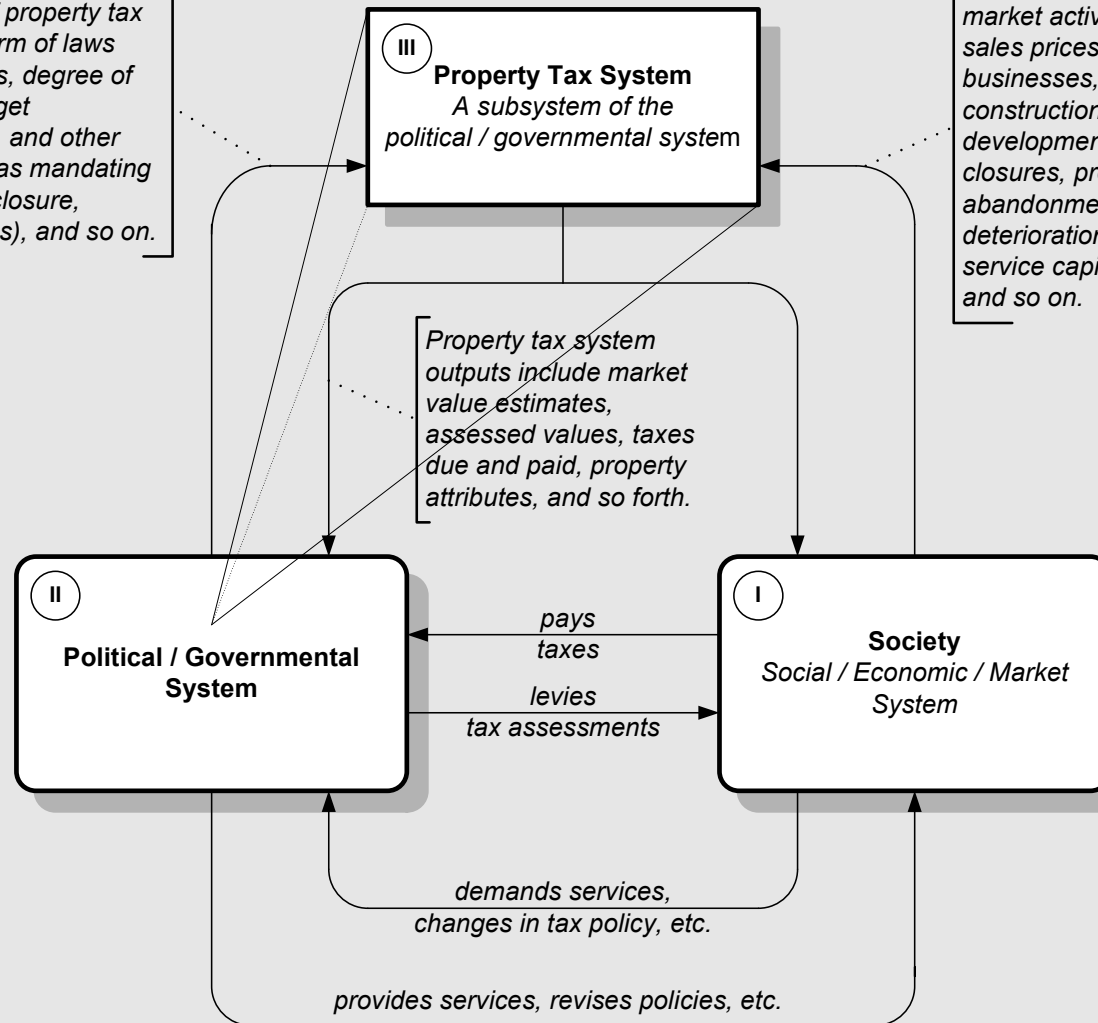
The Right To Tax Property

- Part of a “bundle of rights”
 - Private
 - Use, lease, sell, give away, do nothing
 - Public
 - Tax
 - Take, control in the public interest
 - Escheat (revert to state)
- In effect makes government a partner
 - (“Capitalization”—To be discussed later)

The Property Tax System Environment

Governmental inputs include expressions of property tax policy in the form of laws and regulations, degree of oversight, budget appropriations, and other support (such as mandating sales data disclosure, building permits), and so on.

Market system inputs include information about market activities (such as sales prices, rentals, new businesses, new construction and development, business closures, property abandonment and deterioration, tax and service capitalization effects, and so on.



Property Taxes and Civil Rights

- Representation
 - Type and level of taxation
 - Balanced, diversified revenue system
 - Local government tax
 - Taxes used for agreed purposes
 - Social contract
- Equity
 - Fairness and uniformity
 - Recoup part of society-created value
- Certainty

Property Taxes and Development and in Land Administration (1)

Capitalization

- Value = Present worth of future benefits
- The math:
 - Value = Income X factor *or*
 - Value = Income / rate
- An illustration:
 - *Before new tax:* $\$4,000 / 0.04 = \$100,000$
 - *After:* $\$3,000 / 0.04 = \$75,000$



Property Taxes and Development and in Land Administration (2)

- Incentive and disincentive effects
 - Lower taxes, more investment
 - Higher taxes, less investment
 - High transfer tax, disincentive to registration
- Valuable information about the inventory of real estate
 - How it is used
 - What its value is

Property Tax System Design Challenges



- **Affordability—*Effective tax rates***
 - Relative to income/cash flow
 - Relative to property value
- **Revenue sufficiency**
 - Revenue yield relative to needs (subject to limits)
- **Administrative feasibility**
 - Administrative & compliance costs relative to revenue yield

Types of Property Taxes

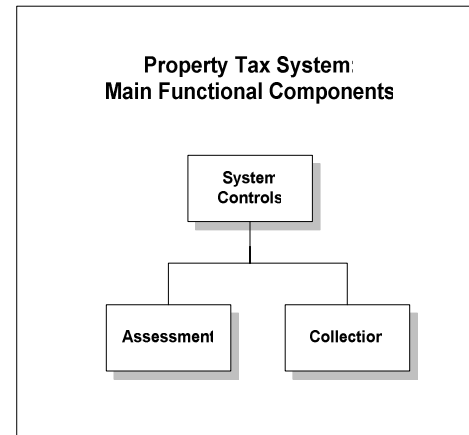
- Recurrent (annual) taxes
 - Immovable (land and buildings) and movable property
 - Net wealth
 - Imputed income
- Non-recurrent taxes
 - Transfer
 - Inheritances and gifts
 - Capital gains, betterment levies

Main Design Features of a Property Tax System

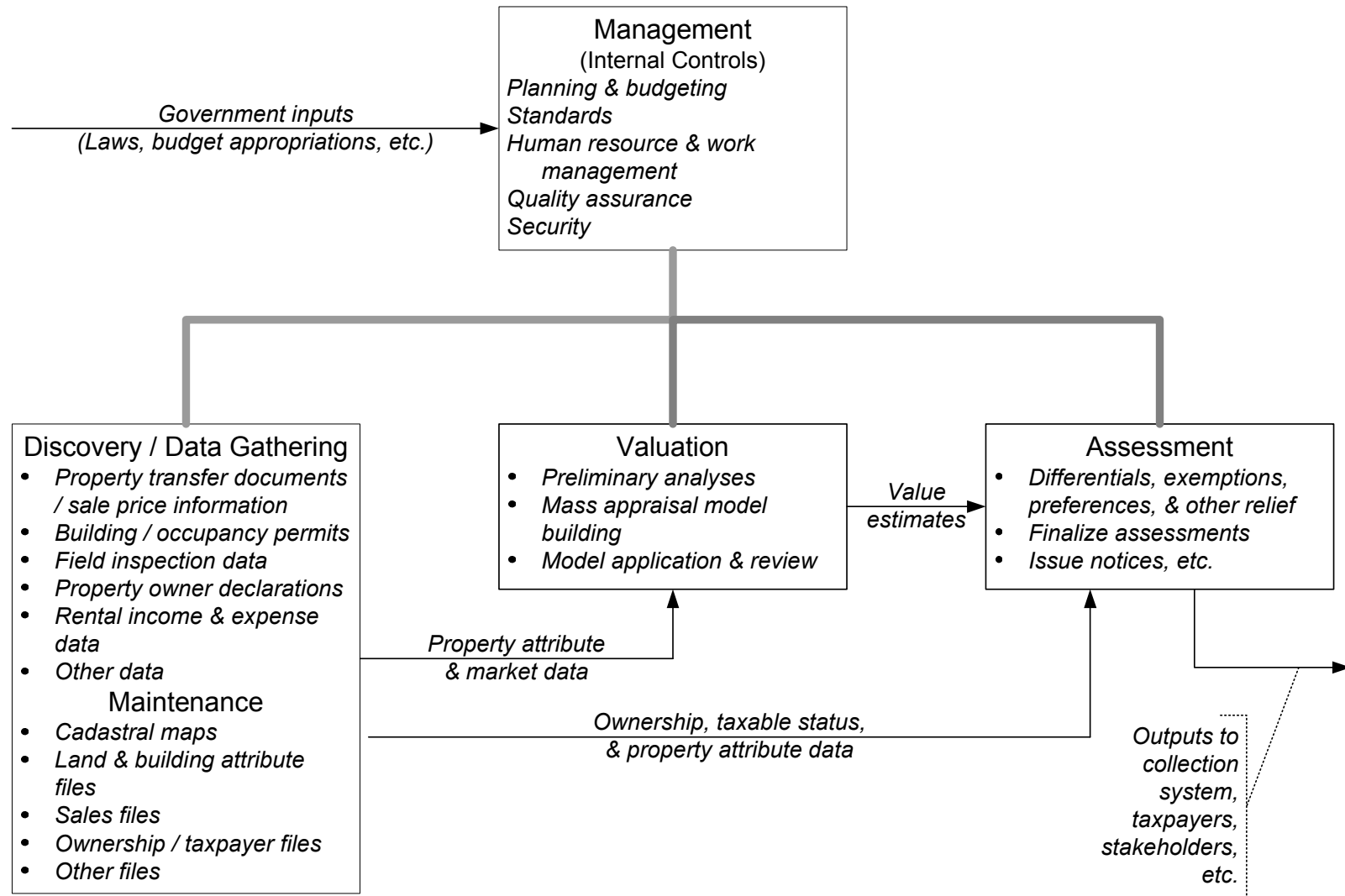
- Subjects (taxpayers) & liability for tax
- Objects and coverage
- Basis of the tax
- Level of tax (rates)
- Differentials, exemptions, property tax relief, and incentives

Property Tax System Components

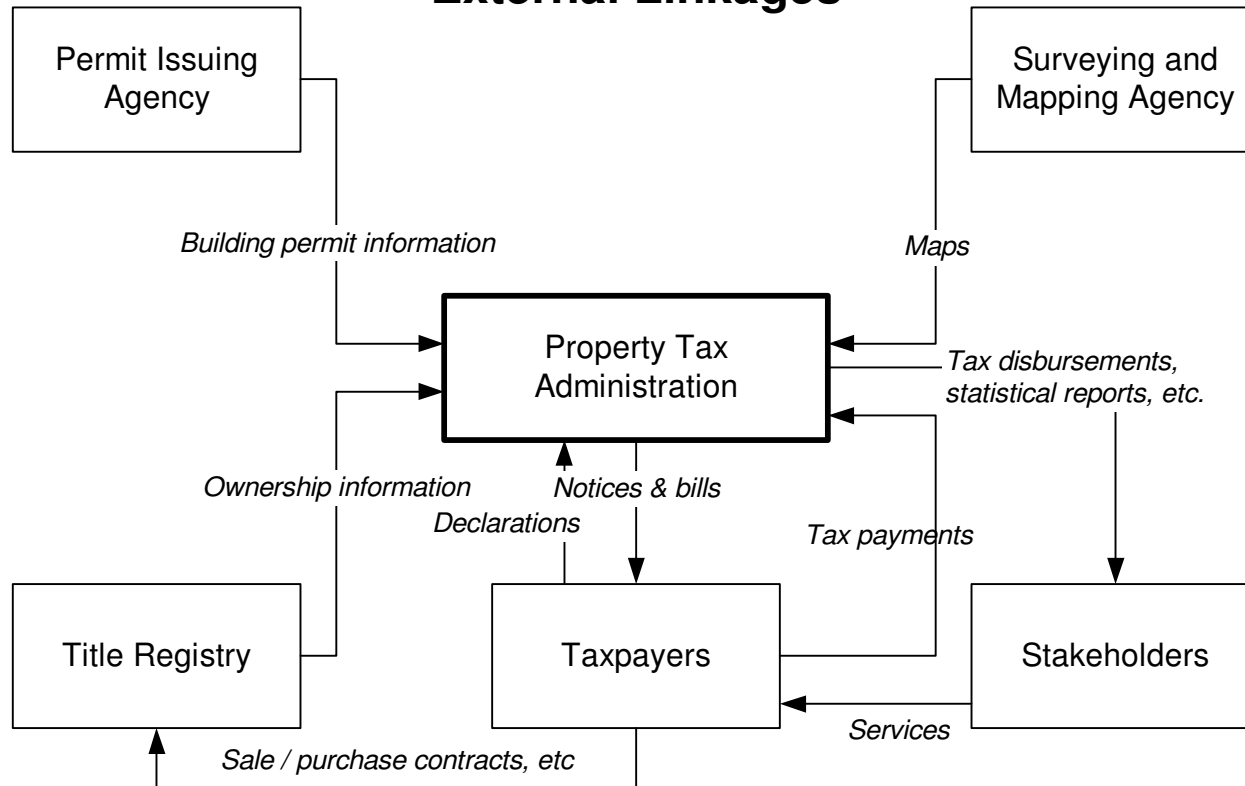
- Assessment
- Collection
- Control



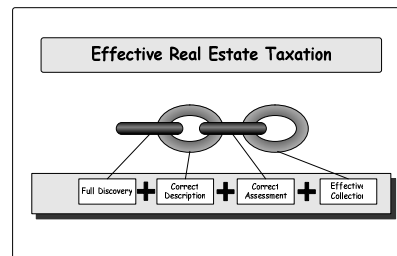
Real Property Assessment System



Typical Property Tax System External Linkages



Effective Real Estate Taxation =



- Full discovery +
- Correct description +
- Correct assessment +
- Effective collection

Lessons for Growing Economies

- Uncouple taxation from title registration and regularization of development
- Focus on
 - Discovering taxable property
 - Making payment easy and unavoidable
- Analyze!
- Profit from international experience
- Break-down institutional barriers
- Transfer taxes are too high
- Recurrent taxes are too low

Lessons for Advisors & Would-be Reformers

- Find out what you don't know (don't assume "irrational" behavior is irrational)
- Address the underlying causes of why current systems are dysfunctional
- Base timetables on political realities, not technical implementation considerations
- Seek champions; build constituencies; work strategically

Questions for Trinidad and Tobago

- In what ways does the *de facto* property tax system differ from the legislated one?
- What are the strengths of the current property tax regimes?
- What are their weaknesses?
- What should be done?
- Who should be involved? Will they be effective partners?

Thank You!

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